
TAX AVOIDANCE TACTICS: EXPLORING THE INTERPLAY BETWEEN INSTITUTIONAL OWNERSHIP AND TRANSFER PRICING



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Abstract

The purpose of this study is to examine and evaluate the extent of the influence of institutional ownership and transfer pricing on tax avoidance practices in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. Tax avoidance is understood as a legal strategy and is often applied by companies to reduce the tax burden by utilizing loopholes or weaknesses in the tax regulation system. This research approach is quantitative in nature by applying multiple linear regression analysis methods based on secondary data obtained from the company's annual financial statements. The sample selection was carried out using purposive sampling technique using certain criteria, which resulted in 45 companies as samples with a total of 225 observations. Measurement of tax avoidance variables is done using the Cash Effective Tax Rate (CETR) method. The research findings indicate that neither institutional ownership nor transfer pricing has a significant effect on tax avoidance, although the direction of the relationship shown is positive and requires further research.

Keywords: Tax Avoidance, Institutional Ownership, CETR, linear regression.

INTRODUCTION

Taxes are the main source of state revenue that can be allocated to finance various sectors, including improving education, community welfare, strengthening state security and resilience, and infrastructure development that supports national economic growth (Rizki & Nugroho, 2024). Tax payment by companies is one of the factors that can reduce revenue or profit obtained (Felix & Iskak, 2021). Therefore, the company seeks to reduce the tax burden that must be paid in order to achieve its goal, which is to provide optimal welfare for shareholders by increasing company value through maximum revenue generation (Wardana & Asalam, 2022). Tax avoidance, or better known as tax avoidance, is a strategy to reduce tax liabilities by utilizing loopholes or ambiguities in tax regulations, so as to reduce the amount of tax to be paid (Aqilla & Sisdianto, 2024).

Based on previous research on tax avoidance, it is still interesting to study because empirical results show diverse variations (research gaps). Research according to Shabika et al. (2023) tax avoidance occurs due to unrealized tax revenue, even though taxes have a crucial role in reducing the gap in state budget revenue, so taxes have a very important role for the state, because without taxes, various state affairs cannot run optimally, this situation is contrary to the company's objectives, which seek to minimize tax payments while maximizing profits (Sadeva et al., 2020). The difference in interests between the state and taxpayers results in taxpayers tending to look for ways to avoid or reduce the tax burden legally through tax avoidance practices (Kusufiyah & Anggraini, 2019). Companies apply this practice to reduce taxes paid and maximize profits without breaking the rules (Sadeva et al., 2020). This makes tax avoidance an interesting topic to discuss.

The phenomenon of tax avoidance in Indonesia continues to be a concern, especially among large companies that try to reduce their tax obligations through various tax planning strategies. For example, research by Heryana et al. (2024) revealed that PT Coca-Cola Indonesia is one example of a company that allegedly conducts tax avoidance through transfer pricing strategies to minimize taxes payable. In addition, a study by Rahayu et al. (2023) states that tax avoidance practices in Indonesia are driven by an imbalance between strict tax policies and legal loopholes that can still be utilized by companies, while a study by Dewi & Mustikasari (2024) found that corporate governance factors play an important role in reducing the level of tax avoidance, with companies that have an independent board of commissioners more likely to implement more transparent tax policies. This phenomenon shows that although tax avoidance does not violate the law directly, this practice remains a challenge for the government in increasing state tax revenue.

Previous research shows that tax avoidance is influenced by various factors, including institutional ownership, transfer pricing, and sales growth. These factors encourage profit optimization, which in turn triggers tax avoidance practices (Auliya et al., 2024). Wardana & Asalam (2022) identified transfer pricing characteristics, institutional ownership and fiscal loss compensation as factors that affect tax avoidance. (Wijaya & Rahayu, 2021) mentions transfer pricing aggressiveness in tax avoidance can be done by transfer pricing or utilizing tax havens to reduce the company's tax burden. Sadeva et al. (2020) added that institutional ownership, company size, leverage and transfer pricing also affect tax avoidance practices.

Institutional ownership has the potential to influence tax avoidance practices, especially when a high shareholding ratio encourages management to maximize profits. Institutional ownership includes ownership by banks, insurance companies, institutions, and other financial industries, which have an important role in overseeing the company's

managerial performance. Institutions with a greater proportion of share ownership than other shareholders tend to encourage management to manage the company in accordance with their own interests, especially in terms of profit optimization, which in turn can increase tax avoidance practices (Wardana & Asalam, 2022)

Nurrahmi & Rahayu (2020) has examined the impact of transfer pricing on tax avoidance, which shows that companies that apply transfer pricing aim to maximize profits, so as to reduce tax obligations that must be paid to the state. According to Muhajirin et al. (2021), transfer pricing is a policy applied by companies in determining the transfer price for a transaction. Indrastuti & Apriliawati (2023) in their research stated that transfer pricing is the main factor that encourages tax avoidance practices. Nugraha & Kristanto (2019) stated that transfer pricing is one of the strategies used by companies to reduce tax costs. From these studies, it can be concluded that although transfer pricing can be used to reduce the tax burden, this practice is also often used as a method of tax avoidance (Auliya et al., 2024)

Previous research shows that studies on the influence of various factors on tax avoidance. Although many studies have been conducted, the findings regarding the influence of independent variables, such as transfer pricing and institutional ownership on tax avoidance practices, still show differences. This inconsistency indicates a research gap that needs to be explored further in order to gain a deeper understanding of the determinants of tax avoidance in various company contexts. Therefore, this study aims to clarify the relationship between these factors and tax avoidance.

This research departs from theoretical problems, namely the inconsistency of previous research results related to the effect of transfer pricing on tax avoidance. Fitri and Hakim (2024) found that transfer pricing has a positive but insignificant effect on tax avoidance. In contrast, Auliya et al. (2024), and Rizki & Nugroho (2024), state that transfer pricing has a significant positive effect on tax avoidance. Similar findings were also expressed by Wijaya & Rahayu (2021). Meanwhile, Wardana & Asalam (2022) concluded that transfer pricing has a positive effect on tax avoidance without mentioning its significance.

The results of research on the impact of institutional ownership on tax avoidance also show inconsistencies in various studies. A number of studies show that institutional ownership has a significant negative effect on tax avoidance, because institutions with greater share ownership tend to influence management to manage the company according to their interests, especially in profit maximization efforts that can encourage tax avoidance (Wardana & Asalam, 2022), as well as according to Wijaya & Rahayu (2021) institutional ownership has a significant negative effect on tax avoidance. However, in other studies, institutional ownership has a positive and insignificant effect on tax avoidance (Rizki & Nugroho, 2024). According to Auliya et al. (2024) institutional ownership has no significant negative effect on tax avoidance.

This study analyzes the effect of institutional ownership and transfer pricing on tax avoidance in consumer non-cyclicals companies listed on the IDX (Adelia & Asalam, 2024). The consumer goods sector contributes greatly to GDP and is the main source of state tax revenue (Fatrisia et al., 2024). However, tax avoidance practices in this sector can be detrimental to the economy, reducing the government's capacity to provide public services. Therefore, further analysis is needed, especially regarding stricter and fairer taxation policies. This study explores the impact of institutional ownership, transfer pricing, and firm size on

tax avoidance, with the aim of providing insights for policy makers in suppressing tax avoidance and improving tax compliance (Rizki & Nugroho, 2024)

This study aims to provide meaningful theoretical contributions to journal readers by exploring various aspects related to tax avoidance in the healthcare and consumer care sectors listed on the Indonesia Stock Exchange (IDX). One of the main focuses of this study is to analyze how institutional ownership affects tax avoidance practices in the sector. In addition, this study also seeks to identify the impact of transfer pricing on tax avoidance, so as to provide deeper insight into the factors that influence the practice. Thus, the results of this study are expected to be a reference for academics, practitioners, and policy makers in formulating more effective strategies to overcome problems related to tax avoidance.

In addition to theoretical contributions, this study also provides a practical impact on the role of transfer pricing as part of tax planning strategies. The study results reveal that transfer pricing not only serves to improve operational efficiency, but also becomes the main instrument in tax avoidance strategies by multinational companies (Pamungkas & Nehayati, 2024). In addition, this study provides guidelines for tax regulators in monitoring transfer pricing. Since there is evidence that transfer pricing is often used to reduce tax liabilities, tax regulators can strengthen supervisory policies on transactions between affiliated companies to prevent aggressive tax avoidance practices (Parulian et al., 2022).

REVIEW OF LITERATURE

Legitimacy theory

Legitimacy theory explains that the sustainability of the company depends not only on financial performance, but also on the extent to which the company's activities are accepted by society in accordance with prevailing norms (Adrai & Perkasa, 2024). In relation to tax avoidance, this theory sees that even though the practice is legal, there is still social pressure because it is considered to reduce contributions to the state. To maintain the image, companies need to manage tax strategies such as transfer pricing so as not to trigger negative perceptions (Tyas, 2021)

In addition, institutional ownership also plays a role in suppressing the risk of excessive tax avoidance. The presence of institutional investors encourages better supervision of corporate tax policies in order to maintain reputation and legitimacy in the eyes of the public (Reswita et al., 2024). Other research also supports that strengthening internal control and quality audits help companies avoid the negative impact of aggressive tax practices (Kurniana et al., 2023). Thus, the management of transfer pricing and the active role of institutional ownership are important keys in maintaining the legitimacy of the company. Thus, legitimacy theory is used in this study because it is able to explain how the company's strategy in managing transfer pricing and the role of institutional ownership contribute to tax avoidance practices, with the main objective of maintaining social legitimacy and ensuring the sustainability of company operations.

Tax Avoidance

Tax avoidance does not explicitly violate tax regulations, but takes advantage of imperfections in existing regulations. This practice is a legitimate strategy used by companies to reduce tax liabilities. The methods applied in tax avoidance involve utilizing weaknesses or loopholes in tax regulations to reduce the amount of tax to be paid. Because taxes are mandatory, taxpayers have no option to refuse them (Rizki & Nugroho, 2024).

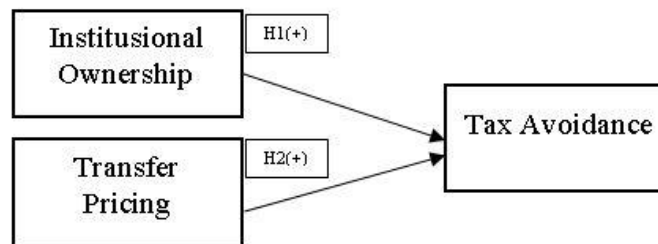
Institutional Ownership

Institutional ownership refers to the control of company shares by large institutions, such as banks, insurance companies, or other institutional investors. The presence of this ownership can influence managerial policies, including in terms of tax avoidance. Managers who own shares in the company tend to be encouraged to increase the value of the company, although sometimes through means that are not fully in line with tax provisions (Rizki & Nugroho, 2024). A number of previous studies have explored the factors that play a role in tax avoidance. For example, Kovermann & Velte (2019) found that elements of corporate governance, such as board composition, ownership structure, and audit process, have a strong impact on this practice. According to, (Jiang, 2024) study shows that institutional ownership influences decision-making related to corporate tax avoidance. This finding is in line with research (Dharmayanti et al., 2024) which proves that institutional ownership tends to reduce the possibility of tax avoidance practices. Thus, institutional ownership plays an important role in controlling management actions that have the potential to deviate from tax regulations.

Transfer Pricing

Another factor that is thought to influence tax avoidance is transfer pricing practices. According to Dewi & Mustikasari (2019) explains that transfer pricing is often associated with structured price manipulation to artificially reduce profits, with the aim of avoiding a country's tax or duty obligations. In practice, companies apply transfer pricing by shifting profits from Indonesia to affiliated companies abroad that have lower tax rates. This strategy is done as an effort to reduce the tax burden and maximize the profitability of the company. The more often a company does transfer pricing, the stronger the indication that the company is trying to carry out tax avoidance practices as part of an aggressive tax planning strategy (Wardana & Asalam, 2022) ..

Research Framework



The Effect of Institutional Ownership on Tax Avoidance

Institutional ownership refers to the ownership of a company's shares by financial institutions with large financial capacity, such as pension funds and foundations (Rahayu & Wahyudi, 2024) . In general, institutions hold a significant proportion of shares in public companies, which gives them great influence over the management of the company as well as an important role in monitoring and shaping managerial decisions. Large amounts of ownership allow institutions to monitor company operations more effectively, reflecting their high supervisory capacity over management practices (Fadhali & Laksito, 2023) . This strong influence also extends to tax policy, where institutions with large shareholdings have the potential to intervene in corporate tax avoidance practices to maximize higher profits than minority shareholders (Tarmizi & Perkasa, 2022) . A number of previous studies have confirmed a positive relationship between institutional ownership and the tendency of companies to engage in tax avoidance (Tarmizi & Perkasa, 2022).

H1: institutional ownership has a positive effect on tax avoidance

The Effect of Transfer Pricing on Tax Avoidance

Transfer pricing is a strategy often used by companies to manage tax liabilities through the transfer of prices or profits between companies (Sari & Kurniatio, 2022) . Although legally allowed, this practice is often associated with tax avoidance, especially when transactions are made with related parties without following the principle of fairness (Fadly et al., 2024) Previous research corroborated by (Sudaryono & Murwaningsari, 2023) found that transfer pricing has a positive effect on tax avoidance. In the context of agency theory, management can utilize transfer pricing to reduce tax burden and increase profits by setting lower prices to affiliated companies in countries with lower tax rates. As a result, transfer pricing aggressiveness increases the possibility of tax avoidance practices (Wijaya & Rahayu, 2021) .

H2 : Transfer pricing has a positive effect on tax avoidance

RESEARCH METHOD

In this research, quantitative methods are applied, using annual financial statement data or annual reports accessed through the stock exchange website. Stastics is used as the main tool to test the influence between variables and make conclusions based on the calculation results. This research involves 125 manufacturing companies in the non-cyclical consumer sector, during the 2019-2023 period on the stock exchange (IDX) as a population. The research sample will be selected by purposive sampling method based on certain criteria, including: (1) Companies in the consumer non-cyclical sector listed on the Indonesia Stock Exchange (IDX) during the period 2023. (2) Consumer non-cyclical companies that consistently publish annual financial reports from 2019-2023 on the IDX. (3) Non-cyclical consumer companies that did not record losses during the 2019-2023 period on the IDX.

Overview of the Research Object

| Sample Selection Criteria | Total |
|--|--------------|
| Non-cylical consumer sector companies listed on the Indonesia Stock Exchange in 2023 | 125 |
| Non-cyclicals consumer sector companies with negative earnings | -58 |
| Non-cyclicals consumer sector companies that do not publish financial reports in the research year period. (2019-2023) | -22 |
| Year of observation | 5 |
| Number of companies that meet the criteria | 45 |
| Total observation | 225 |

In this study, (CETR) serves as a model to estimate the level of tax avoidance (Adijanto et al., 2022). Illustrates the company's efforts to reduce tax liabilities, where CETR reflects various tax avoidance strategies that contribute to a decrease in tax payments to the taxation authority (Adijanto et al., 2022) .

$$CETR = \frac{\text{Tax Expense}}{\text{Earning Before Tax}}$$

Institutional ownership is measured based on the percentage of share ownership owned by corporations, banks, insurance companies, and investment companies (Auliya et

al., 2024). The level of institutional ownership can be calculated using a ratio scale according to the formula referred from Azizah & Muniroh (2023).

$$\text{Institutional Ownership} = \frac{\text{Number Of Share Owned by Institutions}}{\text{Total Share Outstanding}}$$

In this study, transfer pricing is measured using a ratio scale, referring to the formula proposed by Arliani & Yohanes (2023). This approach ensures consistency in measuring transfer pricing through the proportion of related receivables to the company's overall receivables.

$$\text{Transfer pricing} = \frac{\text{Trade Receivables With Speciao Relationships}}{\text{Total Trade Receivables}}$$

The analysis was conducted using multiple linear regression according to Zarkasih & Maryanti (2023).

$$Y = \alpha + \beta_1.TP + \beta_2.KP + \epsilon$$

The formula for this linear regression equation can be described as:

1. The value of the dependent variable (Y) tax avoidance.
2. A constant (α) that is added to all independent variables.
3. The coefficient (β_1) is multiplied by the value of the independent variable transfer pricing (TP).
4. Added with the coefficient (β_2) multiplied by the value of the independent variable institutional ownership (KP).
5. Added to this is an error component (ϵ) that reflects variation not explained by the model.

RESULTS AND DISCUSSION

Statistical Test Results and Regression Assumption Test

Table 1.

Descriptive Statistical Test Results

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------|-----|---------|---------|--------|----------------|
| Transfer Pricing | 225 | 0,00 | 1,00 | 0,1854 | 0,30592 |
| Institutional Ownership | 225 | 0,16 | 0,93 | 0,5789 | 0,21962 |
| Tax Avoidance | 225 | 0,04 | 1,00 | 0,7727 | 0,11852 |
| Valid N | 225 | | | | |

Source: SPSS output25, processed 2025

Descriptive statistics are used to provide an initial illustration of the characteristics of each variable studied. The transfer pricing variable has an average value of 0.1854 (with a range of 0-1) and a standard deviation of 0.30592, which indicates that most respondents are at a high level, although there is a fairly large spread of data. For the institutional ownership variable, the average value is recorded as 0.5789 with a standard deviation of 0.2196, which indicates a fairly wide variation between respondents, with a range of values from 0.16 to 0.93. The tax avoidance variable has an average of 0.7727 and a standard deviation of 0.1185, illustrating that respondents generally have relatively uniform high scores on this variable. With a total of 225 valid data, all variables show a fairly stable data distribution.

Tabel 2.
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

| | | Unstandardized Residual |
|---------------------------------------|----------|-------------------------|
| N | | 255 |
| Exponential parameter. ^{a,b} | Mean | 0,0588995 |
| Most Extreme Differences | Absolute | 0,090 |
| | Positive | 0,090 |
| | Negative | -0,058 |
| Kolmogorov-Smirnov Z | | 0,966 |
| Asymp. Sig. (2-tailed) | | 0,309 |

Source: SPSS output25, processed 2025

Referring to the Kolmogorov-Smirnov test results presented in Table 2, it can be stated that the residual data has met the normality requirements. This can be seen from the significance value (Sig.) of 0.309, which is greater than the threshold of 0.05. Thus, the residual distribution does not show a significant deviation from the normal distribution. The test statistic value of 0.966 and the maximum difference of 0.090 also reinforce this finding. Therefore, the use of parametric statistical methods in the next stage of analysis is considered appropriate and scientifically justified.

Table 3.
Auto Correlation Test Results

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|--------------------|----------|-------------------|----------------------------|---------------|
| 1 | 0,129 ^a | ,0017 | 0,008 | 0,10630 | 1,932 |

Based on the results of the Durbin-Watson autocorrelation test, a value of 1.932 was obtained. With a sample size of 225 and two independent variables, this value is between the upper limit ($dU = 1.78$) and the complementary upper limit ($4 - dU = 2.22$). The location of this value indicates that the residuals in the model do not experience autocorrelation. This means that the residuals are not systematically correlated with each other, so the assumption of residual independence can be said to be fulfilled. Therefore, the regression model used is reliable for the next analysis process.

Discussion of Research Results

Table 4.
Results of the t-test

| Model | | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. |
|-------|----------------------|-----------------------------|------------|--------------------------------|--------|-------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0,400 | 0,017 | | 24,165 | 0,000 |
| | Transfer Pricing | 0,017 | 0,033 | 0,034 | 0,515 | 0,607 |
| | Instutusal Ownership | 0,084 | 0,046 | 0,123 | 1,849 | 0,066 |

Effect of Transfer Pricing on Tax Avoidance

The regression test results show that the transfer pricing variable has a significance value of 0.607 ($p > 0.05$) and a t value of 0.515. This indicates that transfer pricing has no significant effect on tax avoidance practices. Thus, the hypothesis stating that TP affects tax avoidance practices cannot be accepted. The regression coefficient of 0.017 indicates a positive relationship direction, but because it is not significant, the increase in transfer pricing does not directly cause an increase in tax avoidance practices in the observed companies. This finding indicates that transfer pricing policy in the context of this study is not the main instrument in tax avoidance practices.

This finding indicates that TP practices are not directly related to tax avoidance, possibly due to strict tax regulations, transparent documentation requirements, and relatively simple transaction structures. Consistent with Prasetyo & Haryanto (2021) study, these results confirm that fiscal supervision and open reporting can reduce the potential for TP to be used as a tax avoidance tool. The findings also highlight the importance of internal and external controls in suppressing the risk of tax avoidance amidst increased authority scrutiny.

Effect of Institutional Ownership on Tax Avoidance

The KI (Institutional Ownership) variable shows a t value of 1.849 with a significance of 0.066 ($p > 0.05$), which means it is not significant at the 5% significance level, but close to statistically significant. The regression coefficient of 0.084 shows a positive relationship between institutional ownership and tax avoidance, although statistically insignificant, this trend indicates that the greater the institutional ownership, the potential for increased tax avoidance practices. These results provide an initial indication that the role of institutions in the ownership of company shares has not been fully effective in monitoring and suppressing tax avoidance.

The results of this study indicate that institutional ownership has no direct influence on tax avoidance, although there is a tendency that the greater the proportion of institutional ownership, the higher the possibility of tax avoidance practices. This may be due to the lack of effectiveness of the institution's role in supervision and control, as well as its orientation towards short-term gains. Previous research reveals that institutional supervision of tax avoidance practices is still limited, so it is necessary to strengthen controls to prevent abuse in tax avoidance (Okafor & Egbunike, 2023).

Hypothesis Testing

Table 5.
Hypothesis Testing Results of the

| Hypothesis | Variable | Regression coefficient B | t-count | t-table | Sig. | Decision |
|----------------|------------------------------|--------------------------|---------|---------|-------|----------|
| H ₁ | TP (Transfer Pricing) | 0,017 | 0,515 | 1,971 | 0,607 | Rejected |
| H ₂ | KI (Institutional Ownership) | 0,084 | 1,849 | 1,971 | 0,066 | Rejected |

CONCLUSION

The regression analysis results show that neither TP (Transfer Pricing) nor KI (Institutional Ownership) shows a significant effect on tax avoidance practices (Prasetyo & Haryanto, 2021). The TP regression coefficient is 0.017 with a t value of 0.515 and a

significance of 0.607 ($p > 0.05$), while for KI, the regression coefficient is 0.084 with a t value of 1.849 and a significance of 0.066, which exceeds the significance limit of 0.05 (Setiawan & Wicaksono, 2020). Therefore, both proposed hypotheses are rejected (Okafor & Egbunike, 2023).

The insignificance of this result may be due to the influence of strict tax regulations, a good fiscal supervision system, and transparent documentation obligations (Prasetyo & Haryanto, 2021). In addition, companies may have implemented an effective internal control system, and the focus of institutional ownership tends to be more on achieving short-term profitability than monitoring tax avoidance (Setiawan & Wicaksono, 2020).

Future research is recommended to expand the variables used, such as examining the role of more in-depth corporate governance or the effect of more specific tax policies (Okafor & Egbunike, 2023). In addition, it is necessary to consider external factors such as the influence of stricter fiscal supervision or industry factors in tax avoidance practices, as well as using a larger sample and longer duration.

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